

Technical Assistance Paper #8

Capturing Local Wealth

A Porous Rock

Local economies may be subdivided into two categories. First is the so-called "basic" sector, which includes industries like manufacturing, agriculture, government, and also Social Security recipients. Basic industries are those which bring new money into a community. Then comes the "non-basic" sector, which includes retail and service enterprises, financial services, etc. Non-basic industries are those which keep existing money in the local community.

All local economies are porous, like limestone. That is, money that comes in will eventually leak out. Just as rock grows weaker the more porous it is, so do local communities. The hallmark of a strong community is the ability to hold on to its wealth as long as possible.

A Few Leaks in the System

Wealth can leave a community through a number of holes, but generally, anytime goods or services must be purchased from outside some dollars will be lost. This is often referred to as economic "leakage". There are three generally accepted concepts for encouraging enterprises to plug these holes:

1. Import Substitute-Produce locally what must be imported;
2. Value Added-Refine or evolve goods and services that presently leave the community unfinished;
3. Resource enhancement-Invest in the utilities of an under used resource.

These concepts are discussed further in the technical assistance paper "Creating New Enterprises".

On a community level, however, a local economic development program can utilize a variety of tactics that have the effect of capturing more local wealth.

Energy Management: Where community residents wastefully use energy, dollars that could be spent locally leave the community to pay for heating oil, electric bills, gasoline, etc. Energy conservation programs have the effect of increasing the disposable incomes of residents. Taken individually, the savings may be small, but on a community level this may result in a substantial increase of available dollars.

Expansion of Health and Other Public and Human Services: Residents of many communities have to drive for miles to receive adequate health care. Some even move to other towns as a result. The same is true for other public and human services, such as day care. These services have become relevant necessities of life, and communities that do not provide them may find themselves losing their greatest wealth of all, their people.

Recreational Development: Certainly one of the most common complaints of rural youth is that "there's nothing to do in town". Their solution is to drive to a larger one. This problem is not limited to youth. Adults, however, are less likely to live in a community that does not provide the recreational facilities they have grown to expect.

Public Infrastructure Improvement: Just as people have come to expect certain services out of their community, they also expect certain physical attributes. Paved streets and county roads, sidewalks, sewers and adequate water are some of the requirements of a well-developed community.

Housing Rehabilitation: Many communities have suffered a decline in the quality of existing housing over time. Their wealth has slipped away in the form of depressed real estate values. Rehabilitating this housing can result in an opposite increase in wealth.

School/Community Partnerships: Local schools often possess the best resources - both in physical facilities and in human knowledge - in the community. In many towns, the local school district is also the largest employer. The concept of the "School as Community Center" can foster increased use of human capital for the benefit of the community.

The Most Dangerous Drain of All

Over time, people tend to be exceedingly clear about the relevance of the community in which they live. If it's not relevant, they leave, its that simple.

Social scientists and futurists have noted that knowledge has become the most important creator of wealth in our economies. In other words, the ability of a company or a community to generate wealth is not a function of its ability to produce goods or its ability to collect taxes, but of its available knowledge for receiving, processing, and reacting to information from the global economy.

The inability of a community to capture its local wealth very often boils down to its ability to hold on to its residents. This problem may be symptomatic in general of the rural condition - its isolation from the very world it seeks to be relevant to. A community or economic development program may find that addressing these issues focus on the vary values of the community. Quite often, community and economic developers find themselves facilitating a community attitude - or paradigm - shift.